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Pension reform: the case of Illinois

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Before the 2007–09 financial crisis, Illinois had already experienced low funding levels for state and local public pension funds. The financial crisis further reduced the state's coffers, heightening the urgency for a solution. The Illinois General Assembly legislature passed bills in 2013 and 2014 that would have changed funding requirements and reduced benefits for some retirees. The Illinois Supreme Court struck down both bills as violations of the pension protection clause.

The Federal Reserve Bank of Chicago (FRBC) and the Civic Federation met on April 17, 2018 to marshal solutions. Among the solutions offered, FRBC economists Richard Mattoon, Thomas Haasl, and Thomas Walstrum presented positive results from their research on the effects of raising property taxes on a statewide level to expand the state's revenue source.

Eric Madiar, of Madiar Government Relations, presented the Illinois Senate president's proposal to cut state pension obligations. Madiar argued that the proposal does not skirt the pension protection clause because state law allows employees to enter into an agreement for lower future payments in exchange for "consideration." The Senate president's proposal allowed state employees to choose between two different forms of consideration in exchange for lower future payments.

In choice one, the employee voluntarily gives up the 3 percent annual compound cost-of-living increase in exchange for a delayed and lower rate of increase in retirement. In return the employee will receive a lump-sum payment equal to 10 percent of the prior employee contributions and a 10 percent decrease in future pension contributions. In choice two, the employee keeps the 3 percent annual compound cost-of-living but loses the ability to have future raises included in the calculation of future pensionable earnings. If implemented this measure will reduce the state's pension costs by $1 billion a year, according to Madiar.

Illinois state representative Elaine Nekritz, a supporter of the 2013 pension reform bill that was struck down, suggested that pension funding must be considered in the entire context of the range of services the state provides. The burgeoning pension payments are competing with other priorities for a portion of a limited pot of money. For example, this year, $6 billion of the state's $38 billion budget will be needed to fund K–12 public education.

The conference highlighted several alternatives for keeping the Illinois state public pension system solvent. For any of them to be adopted, all parties involved—labor leaders, city and state financial comptrollers, and workers and retirees—must be willing to compromise to create a plan that will be acceptable to all sides.